

CHAPTER 2

PERMITTED CURRENCIES AND METHODS OF PAYMENT

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PERMITTED CURRENCIES AND METHODS OF PAYMENT

Permitted Currencies

2.1 This Chapter sets out the regulations governing permitted currencies and methods of payment to be used for settlement of financial transactions between residents and non-residents through authorised dealers. The expression 'permitted currency' is used in the Manual to indicate a foreign currency which is freely convertible i.e. a currency which is permitted by the rules and regulations of the country concerned to be converted into major reserve currencies like U.S. Dollar, Pound Sterling and for which a fairly active market exists for dealings against the major currencies. Accordingly, authorised dealers may maintain balances and positions in any permitted currency. Authorised dealers may also maintain positions in European Currency Unit (ECU) of the European Monetary System (EMS).

Authorised Dealers' Responsibility in regard to other Currencies

2.2 Authorised dealers should exercise care and circumspection while accepting payments offered by exporters and others in currencies not generally known as freely convertible currencies and ensure by proper enquiry with their overseas branches / correspondents that the currency qualifies to be treated as a permitted currency in order that the foreign exchange so acquired does not become immobilised or is otherwise not subject to restrictions imposed in the foreign country on its use for international payments

Choice of Contracting Currencies in International Transactions

2.3 Authorised dealers may sometimes be approached by their customers who are engaged in export/import trade consultancy services etc. for advice regarding choice of currencies.

besides Indian rupee SDR or ECU for the purpose of contracting with their overseas counterparts. Authorised dealers may advise their customers that while there are no restrictions from the Exchange Control viewpoint on any foreign currency being chosen Exim Policy stipulates that all export contracts and invoices (except those for which payments are required to be received through the Asian Clearing Union) shall be denominated only in a freely convertible foreign currency. They may also be advised that settlement of payments in terms of the contracts will eventually have to take place in a 'permitted currency' and they will be well advised to choose one of such currencies even for contracting purposes. Additionally although authorised dealers are allowed in terms of paragraph 3C.1 to provide forward cover to residents in any 'permitted currency' the absence of a forward exchange market in India or in an overseas centre for covering the exchange risk of authorised dealers in even some of the permitted currencies may result in residents being unable to protect themselves against exchange risk in case of need. The choice of currencies for the purpose of contracting should therefore be made after proper assessment of these factors

NOTE: *In case of countries (excluding Nepal) which are members of the Asian Clearing Union provisions of the Memorandum of procedure (ACM) dealing with obligatory routing of eligible current transactions between members would be relevant.*

Authorised Dealers' Foreign Currency Accounts

2.4 Authorised dealers may freely open and maintain accounts in any permitted currency with their branches and correspondents abroad. A report should be sent to the office of Reserve Bank to whom R Returns are submitted by authorised dealers as soon as a new account is opened abroad giving the name and address of the foreign branch or correspondent with whom the account has been opened.

Permitted Methods for Receipts

2.5 Authorised dealers should receive remittances from foreign countries (other than Nepal & Bhutan) or obtain reimbursement from their branches and correspondents in those countries against payments due for exports from India and other payments in a manner conforming to the methods of payment indicated below:

Group	Permitted methods
(i) All countries other than those listed under (ii) below	(a) Payment in rupees form the account of a bank situated in any country in this Group
	(b) Payment in any permitted currency
(ii) Member countries in the Asian Clearing Union (except Nepal)	(a) Payment for all eligible current transactions by debit to the ACU dollar account in India of a bank of the participating country in which is resident or by credit to the ACU dollar account of the authorised dealer maintained with the correspondent bank in the other participating country.
	(b) Payment in any permitted currency in other cases

NOTES: A. *In respect of exports, payment must be received in a currency appropriate to the country of final place of destination of the goods as declared on GR etc. forms, irrespective of the country of residence of the buyer.*

B. *In terms of paragraph 6A.6, Reserve Bank has granted permission for receiving payments for exports directly by exporters from their buyers in the form of bank drafts, cheques, payorders, foreign currency notes or foreign currency travellers cheques subject to the conditions prescribed therein. Payments for exports out of funds held in **FCNR/NRE** accounts are also permitted. Payments out of rupee accounts held in the names of Exchange Houses by authorised dealers are also permitted up to Rs. .50,000/- per transaction*

Permitted Methods of Payments

2.6 Authorised dealers should make remittances from India or provide reimbursement to their overseas branches and correspondents in foreign countries (other than Nepal and Bhutan): against payments due for imports into India and other payments in a manner conforming to the methods of payment indicated below:

Group	Permitted methods
(i) All countries other than those listed under (ii) below	(a) Payment in rupees to the account of a resident of any country in this Group
	(b) Payment in any permitted currency
(ii) Member countries in the Asian Clearing Union (except Nepal)	(a) Payment for all eligible current transactions by debit to the ACU dollar account in India of a bank of the participating country in which is resident or by credit to the ACU dollar account of the authorised dealer maintained with the correspondent bank in the other participating country.
	(b) Payment in any permitted currency in other cases

- : NOTES: A. *In respect of imports, payment must be made in a currency appropriate to the country of shipment of the goods. In cases, however, where goods are shipped from an ACU member country (other than Nepal) but the supplier is a resident of a country other than a member country of ACU, payment can be made in the manner specified for countries in Group (i)*
- B. *Government of India has concluded and may conclude from time to time Special Trade and Payments Agreements with some countries providing for settlement of certain payments to the countries in a specified manner. Wherever authorised dealers have been advised about such arrangements, the method of payment specified therein will have to be followed in such cases.*
- C. *Government of India had entered into bilateral trade and payment agreements with certain east European countries under which transactions were hitherto settled in non-convertible Indian rupees. In terms of fresh agreements entered into with these countries, payments/receipts for trade etc. transactions are to be settled in convertible currency and liquidation of outstanding rupee balances in favour of banks in these countries is permitted by export of goods/services from India. Besides, repayment of rupee-denominated commercial credits granted by organisations in the erstwhile USSR under the Protocols of deliveries of machinery and equipment from the erstwhile USSR on deferred payment terms signed on 30th April 1981 and 23rd December 1985 and repayment of State Credits granted by the erstwhile USSR are permitted by export of goods and services and the Indian exporter is permitted to receive proceeds of his exports in such cases in Indian rupees. Authorised dealers should be guided by the instructions issued to them separately in this regard from time to time.*

Payment in Approved/Conforming Manner

2.7 The expression 'payment in an approved manner' and 'payment in a conforming manner' used in the Manual will mean that the payment should be received or made in one of the permitted methods of payment laid down in paragraph 2.5 and 2.6 respectively.

Asian Clearing Union

2.8 The Asian Clearing Union (ACU) is only a mechanism for settlement of payments between participating countries. Until 31st December 1995 the settlement of transactions was being made in Indian rupees or in the currency of the other participating country or in AMU. Effective January 1 1996 payments are required to be made/received through ACU dollar accounts maintained with authorised dealers in India in the names of their correspondent banks in ACU countries or ACU dollar accounts maintained by authorised dealers with their branches/correspondents abroad. The Exchange Control regulations laid down in this Manual will govern the payments and receipts cleared through the Union.

Memorandum of Procedure (ACM)

2.9 All authorised dealers in India are permitted to handle transactions to be cleared through the Asian Clearing Union. The Agreement establishing the Union and the ACU (Procedure) Rules setting out the procedure to be followed for settlement of transactions by the participating countries as also the memorandum of procedure drawn up by the Reserve Bank to be followed by the authorised dealers for handling the transactions to be cleared through ACU are given in the Memorandum ACM.

Channelling through ACU Obligatory

2.10 (i) All eligible payments, except those indicated in sub-paragraph (ii) below should compulsorily settled through the ACU mechanism. While there is no bar on any contract, letter of credit, invoice etc. being denominated in U.S. dollar or in any other permitted currency, it should invariably stipulate a condition that the actual payment shall be made in ACU dollar.

(ii) The following types of payments are to be settled outside the ACU mechanism:

(a) All payments between India and Nepal.

(b) Payments relating to travel between India and all other countries in ACU.

(c) Export/Import transactions financed out of loans from international financial institutions like World Bank, Asian Development Bank and under bilateral lines of credit

* (d) Import of sugar, fertilisers and pulses.

* This was allowed up to 31st December 1995.